

Assess your Risk Management framework under UCITS III

The financial crisis has exposed Risk Management vulnerabilities on a variety of fronts, and risk tools have failed to adequately take into consideration the market changes. Management Companies, as well as self-managed SICAV's have inevitably been impacted. How should they capture all risks and build an efficient Risk Management framework?



Recent years have shown a rapid growth in the importance of Risk Management within the UCITS environment and subsequently a major shift in focus from regulators worldwide. Sweeping transformations and continuous amendments to existing regulation and standards have clarified a certain number of topics, but without bringing the most appropriate solution. Increased regulatory focus has not prevented the financial market turmoil and therefore the road to an efficient embedded Risk Management framework for UCITS is still long.

Today, the key question is:

“How to regain control of the Risk Management agenda in order to capture and effectively manage all relevant business risks?”

The challenge

As management focus now turns to understand how to better manage risks and therefore minimise the impact of constraints on business, the pressure to release resources and capacity has never been greater. Boards now need to rely increasingly on input to support their decision-making process and enhance business performance. The past events have proven that exclusively sticking to regulatory requirements is not enough. Risks such as liquidity risk or organisational risk have not or not enough been captured throughout the existing Risk Management approach.

The Risk Management framework

The CSSF Risk Management Circular 07/308 points out different categories of risks which should be managed:

- Market Risk and Counterparty Risk;
- Valuation Risk;
- Concentration/Diversification Risk as well as Coverage Risk.

In addition, the CSSF recommends all other risks, which may cause losses to UCITS, be subject to adequate supervision at the UCITS level. These further risks cannot be neglected, as recent developments in the markets prove.

How can the UCITS effectively capture and monitor all risks?

A sound Risk Management framework consists of different building blocks:

- Organisation, people and governance;
- Policies;
- Methodologies;
- Limits and controls;
- Reporting and escalation procedures;
- Systems and data.

PwC developed a dedicated process improvement approach to better manage those risks providing not only compliance to the regulatory framework, but enhancing the whole process and emphasising the need for governance and the implication of Senior Management as well as the Board of Directors.

What are the deliverables?

Based on your needs, PwC offers a flexible approach that supports you in the following way:

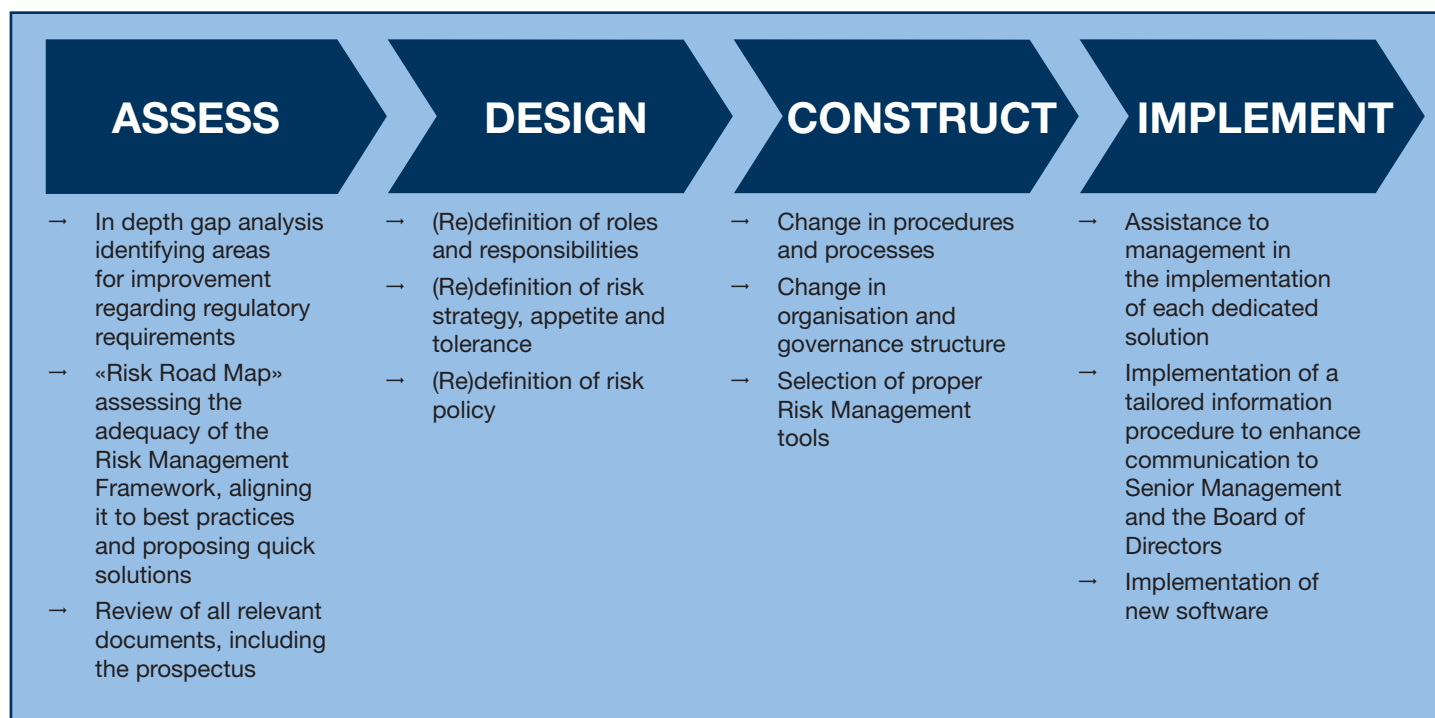
- “Risk Road Map” providing you with an assessment of your risks
- Flexible trainings (Compliance, Technical, Board and Management)
- Assistance to the Management in the implementation of each dedicated solution
- Workshops (e.g. Reporting, New Instrument Process, ...)

Those deliverables will help you decide where you want to stand (Satisfy the minimum requirements? Be seen as a market leader? Be somewhere in-between?)

The PwC process improvement approach is based on the assessment of the Risk Management value chain:

- Model:
 - Determine the risk profile / the risks of the UCITS
 - Determine the risk models
 - Determine the tools
 - Implement the models and the tools
 - Create data interfaces
- Measure:
 - Quantify the risks and measure them
- Control:
 - Control the measurement results
 - Control the adherence to internal and legal limits
 - Control the validity of your model
- Report:
 - Define the relevant reporting recipients and escalation procedures
 - Report the results

Following this approach, we can step into every phase and offer you tailor-made solutions depending on your needs:



Our dedicated team of experts remains at your disposal to provide you with a clear picture of your organisation at any step of your Risk Management framework and to help you managing your risks effectively and leveraging your benefits.

Why PricewaterhouseCoopers Luxembourg?

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